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Memorandum for: THE RECORD

This memorandum was requested by William M. George Director, International Economic Policy, Office of the Assistant Secretary of Defense and was prepared by [redacted] the Western Europe Division. 25X1

EUR M85-10086

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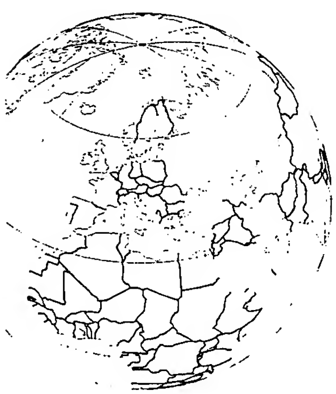

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[redacted] 25X1

Central Intelligence Agency

Washington, D.C. 20505

3 MAY 1985

MEMORANDUM FOR: Mr. William M. George
Director, International Economic Policy
Office of the Assistant Secretary of Defense
International Security Policy

SUBJECT : NATO Country Economic Summaries [redacted] 25X1

Attached are the NATO Country Economic Summaries that you requested in your memorandum of 10 April. We hope Secretary Weinberger finds useful our contribution to the briefing material you are pulling together for his attendance at the May NATO ministrial meeting. If you have any further questions or if we can be of further assistance, please call [redacted] Deputy Chief, Western Europe Division, on [redacted] 25X1

25X1

[redacted] 25X1

Director
European Analysis

Attachment:
As stated.

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BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATA

BELGIUM

Population (1984): 9.9 Million GDP (Purchaser's Value)/Capita: $8,320

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	63.0	69.1	72.5	78.1
GDP (Constant Prices - % Change by Year)	-1.2	0.7	0.5	1.8
Cost-of-Living Index (1980 = 100)	108	117	126	134

LUXEMBOURG

Population (1984): 0.37 Million GDP (Purchaser's Value)/Capita: $12,700

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	3.8	4.5	4.7	5.0
GDP (Constant Prices - % Change by Year)	3.1	2.1	-0.4	1.1
Cost-of-Living Index (1980 = 100)	108	118	128	136

25X1

The Belgian economy maintained its steady but unspectacular recovery in 1984, and continued austerity measures and structural weaknesses will allow only slow progress again this year. Real growth in 1985 probably will be about 2 percent, insufficient to prevent a rise in the unemployment rate, which now stands at 14.1 percent. On the brighter side, inflation has continued to slow, falling to 6.4 percent in 1984, and further improvement is likely this year.

25X1

The principal objective of Prime Minister Martens's fiscal policy is to reduce the budget deficit from 13 percent of GNP in 1983 to 7-8 percent in 1986. The government is unlikely to meet this goal, however, despite recently-announced expenditure cuts of $422 million designed to return the 1985 deficit to its target level of 10.4 percent of GNP. Further deficit reduction is doubtful because the government already has announced a series of tax cuts beginning in 1986 -- although the cuts are welcome news to supporters facing election later this year.

Exports have continued to grow -- up 5.6 percent in 1984 -- allowing Belgium to virtually eliminate its merchandise trade deficit while reducing the current account imbalance to one-sixth of its 1981 level. Continued export growth could allow the current account to approach balance in 1985. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	87.3	82.9	75.5	76.8
Imports of Goods and Services	90.2	84.4	75.2	77.0
Balance of Goods and Services	-2.9	-1.5	0.3	-0.2
Current Account Balance	-4.2	-2.7	-0.8	-0.6
Long-Term Capital	-4.6	-3.7	-5.1	-5.5
Total Reserves Minus Gold (yearend)	5.0	3.9	4.7	4.6

*Estimated

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CANADA: GENERAL ECONOMIC DATA

Population (1984): 25.2 Million GDP (Purchaser's Value)/Capita: $13,910

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	271.4	286.7	310.8	342.2
GDP (Constant Prices - % Change by Year)	3.2	-4.5	3.2	4.7
Cost-of-Living Index (1980 = 100)	112	125	132	138

25X1

Boosted by a $15 billion trade surplus with the US, the Canadian economy grew 4.7 percent in 1984. Growth this year will slow to about 3 percent, as increased business investment only partially offsets a slowdown in consumer spending and net exports. As a result, unemployment likely will stay around 11 percent in 1985. The Canadian dollar depreciated 5.4 percent against the US dollar in 1984 -- the smallest decline of any major currency -- and it is expected to appreciate slightly in 1985. Inflation was 4.4 percent in 1984 and should decline to 3.8 percent this year. 25X1

The budget deficit grew from $21.5 to $26 billion in 1984. Although the Mulroney government has made deficit reduction a top priority, the recognition that any drastic cuts would stall the slowing recovery will limit its actions. Consequently, new taxes or expenditure cuts probably will not exceed $2-3 billion, and are likely to focus on enhancing business confidence. Ottawa hopes these measures will lead to an increase in employment and investment of sufficient magnitude to reduce the deficit further.

Canada ran a $16.4 billion trade surplus and a $1.5 billion current account surplus in 1984. The surge in net exports accounted for over half of GDP growth, and Ottawa's concern about growing protectionism in the US will make trade liberalization a key issue in 1985. Revised national energy policy will spur energy exports -- particularly oil and natural gas to the US -- and imports by perhaps 25 percent in 1985. Continuing high unemployment and concerns by small Canadian firms of increased competition from larger US rivals will be impediments to freer trade but Ottawa will continue promoting an environment conducive to foreign investment. Although the trade surplus should increase somewhat in 1985, the current account surplus is expected to fall to $400 million due to a growing services deficit. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	83.9	82.4	87.7	102.4
Imports of Goods and Services	90.3	81.4	87.0	101.8
Balance of Goods and Services	-6.3	1.0	0.7	0.6
Current Account Balance	-5.0	2.1	1.3	1.5
Long-Term Capital	.6	4.7	-0.1	2.1
Total Reserves Minus Gold (yearend)	3.5	3.0	3.5	2.5

*Estimated

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DENMARK: GENERAL ECONOMIC DATA

Population (1984): 5.1 Million   GDP (Purchaser's Value)/Capita: $10,760

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	38.3	43.4	48.1	54.9
GDP (Constant Prices - % Change by Year)	-0.8	3.4	2.5	4.2
Cost-of-Living Index (1980 = 100)	112	123	132	140

[redacted] Denmark's first major labor conflict in 12 years erupted in late March after labor/management negotiations on a new wage contract became deadlocked. A government-mandated strike settlement exacerbated the conflict, virtually paralyzing the nation during the first few days of April. The settlement limits wage increases to a total of about 4 percent over the next two years and cuts the 40-hour week by one hour in January 1987. 25X1

[redacted] Although a financial and psychological defeat for labor, the government-imposed terms are expected to help prolong the stronger economic trend that began in 1982. The settlement buttresses the Schlueter government's economic game plan, which aims to promote investment and exports by holding down labor costs and inflation. 25X1

[redacted] Taking the wage settlement into account, the government is estimating real GNP growth at 3 percent this year, down from 4.2 percent in 1984. Copenhagen remains concerned about the large current account deficit, expecting only a slow reduction from last year's $1.7 billion to 1.2 billion in 1986. Progress on the federal budget deficit should be better. It reached 8 percent of GNP last year but will be half that by 1986, according to the government. The official forecast calls for sharp reductions in inflation but anticipates only limited progress on unemployment. Denmark's independent council of economic advisors, encouraged by the prospect of low wage growth over the next two years, is more optimistic. The council believes the current unemployment rate of 9.5 percent will fall several percentage points. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	23.2	22.2	22.5	22.4
Imports of Goods and Services	24.9	24.3	23.5	24.1
Balance of Goods and Services	-1.7	-2.1	-1.0	-1.7
Current Account Balance	-1.9	-2.3	-1.2	-1.7
Long-Term Capital	1.3	2.4	2.5	1.9
Total Reserves Minus Gold (yearend)	2.5	2.3	3.6	3.0

*Estimated

[redacted] 25X1

25X1

FRANCE: GENERAL ECONOMIC DATA

Population (1984): 54.9 Million GDP (Purchaser's Value)/Capita: $8,930

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	356.0	408.2	452.6	491.5
GDP (Constant Prices - % Change by Year)	0.2	2.0	1.0	1.5
Cost-of-Living Index (1980 = 100)	113	127	139	149

The austerity program adopted in 1983 has had considerable success in reducing inflation and improving the balance of payments. The current account deficit -- $12 billion in 1983 -- was nearly eliminated in 1984 and a small surplus is expected in 1985. On a December-to-December basis, inflation fell below 7 percent last year and may fall to 5.5 percent this year. More importantly, the inflation differential vis-a-vis France's major trading partners has been reduced to about 3 percentage points, although further progress will be slow. Real GDP will be up about 1.5 percent this year, the same increase recorded in 1984, while unemployment has risen to 10.5 percent and is not expected to fall soon. 25X1

25X1

During the past year the Socialists have continued their bold effort to restructure and modernize the economy by encouraging more flexibility in the labor market and by diverting resources from consumption to investment. Disappointing its labor union supporters, the government has authorized significant layoffs in mining, steel, shipbuilding, and automobiles. It is also pressing nationalized firms to become more efficient and profitable.

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While Paris clearly is moving in the right direction, the problems it is addressing are deep-seated. Positive results from the new orientation thus will be slow to materialize under the best of circumstances. With growing political activity due to the 1986 Assembly election and the 1988 presidential contest, economic policy will be vigorously debated, but the Socialists are not likely to reverse course this year.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	168.8	153.8	145.4	150.0
Imports of Goods and Services	169.4	161.2	146.5	148.0
Balance of Goods and Services	-0.6	-7.5	-1.1	2.0
Current Account Balance	-4.8	-12.1	-4.4	0.0
Long-Term Capital	-8.9	1.2	9.4	5.0
Total Reserves Minus Gold (yearend)	22.3	16.5	19.8	22.1

*Estimated

25X1

GREECE: GENERAL ECONOMIC DATA

Population (1984): 9.9 Million   GDP (Purchaser's Value)/Capita: $3,320

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	18.1	22.5	27.0	32.9
GDP (Constant Prices - % Change by Year)	-0.3	-0.1	0.2	2.2
Cost-of-Living Index (1980 = 100)	125	151	182	215

25X1

Prime Minister Papandreou has pursued generally expansionary policies, keeping public spending high and granting large wage increases to revive an economy that stagnated for three years before recovering to a 2.2-percent growth rate in 1984. He has increased state intervention in the economy, taking over "ailing enterprises" to prevent a further rise in unemployment -- which reached 10 percent in 1984. In addition, he has imposed tighter price, credit and exchange controls. While inflation fell slightly to 18 percent last year -- down from 21 percent in 1983 -- it remains approximately three times higher than the average of Greece's EC partners. The public sector borrowing requirement as a share of GNP rose to nearly 16 percent last year, one of the highest rates in the European Community.

25X1

A deterioration in the balance of payments last year increases the possibility that Greece may need to seek official assistance after 1985. The current account deficit grew by 16 percent to $2.2 billion -- 6.7 percent of GNP -- up from $1.9 billion in 1983. The trade deficit fell slightly, but invisibles earnings declined for the fourth consecutive year -- mainly because of a sharp fall in shipping receipts, higher interest payments on a growing foreign debt, and a drop in net EC subsidies. Total foreign debt is now about $14.5 billion -- nearly double the 1979 level.

Without a significant change in economic policies, the outlook for the economy remains poor. Such a change is unlikely in the short term with a national election scheduled for June 2 and political tensions running high. Greece's balance of payments prospects, therefore, are likely to worsen next year, with the current account deficit reaching around $2.3 billion. The domestic economy is also likely to remain sluggish; we believe GDP growth will fall back to 1.5-2.0 percent with unemployment edging up further as private investment remains depressed. Inflation probably will stay in the 17-18 percent range, fueled by the large public sector deficit and the expansionary incomes policy. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	4.8	4.2	4.1	4.4
Imports of Goods and Services	11.5	10.1	9.5	9.8
Balance of Goods and Services	-6.7	-5.9	-5.4	-5.4
Current Account Balance	-2.4	-1.9	-1.9	-2.2
Long-Term Capital	1.6	1.2	2.1	NA
Total Reserves Minus Gold (yearend)	1.0	0.9	0.9	1.0

*Estimated

25X1

ICELAND: GENERAL ECONOMIC DATA

Population (1984): 0.24 million GDP (Purchaser's Value)/Capita: $8,790

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	0.7	1.0	1.0	2.1
GDP (Constant Prices - % Change by Year)	1.6	-1.5	-5.5	2.7
Cost-of-Living Index (1980 = 100)	151	225	418	553

25X1

Iceland's economy grew 2.7 percent in 1984, after two consecutive years of falling output. This reflects a dramatic increase at the end of 1984 in the volume of the fish catch -- which accounts for over 70 percent of export earnings and about 20 percent of GDP. Imports also were unexpectedly high in 1984, however, pushing the current account deficit to 4-5 percent of GDP. While the prolonged recession has ended, living standards have dropped by 17-18 percent since 1981. Unemployment meanwhile has risen above 1 percent -- a high level by Icelandic standards -- and inflation has begun to accelerate. The wage settlements of over 18 percent that resulted from a month-long strike in October, and a 12-percent devaluation of the Krona in November, combined to push 1984 inflation to about 20 percent; the 1985 rate may approach 35 percent. 25X1

Prospects for overall economic improvement in 1985 -- despite austerity efforts of the current government -- appear slim. In hindsight, government officials admit the main problem since May 1983, when the austerity program was launched, has been the failure to follow sufficiently strict fiscal and monetary policies. Even more important in the short term is the government's foreign borrowing which is financing most of the budget deficit. The growing foreign debt equalled 60 percent of GDP at the end of last year and debt service costs were 24 percent of export earnings. 25X1

Over the longer term there is great concern about Iceland's ability to tackle the structural readjustments needed to adapt the economy to a more competitive international environment. The government has indicated its intention to invest in and develop the aluminum and ferro-silicon industries -- which account for over half of non-fishing export earnings -- as well as geothermal and hydroelectric power. These areas, however, along with the construction sector, probably are the most vulnerable to government expenditure cuts if it becomes necessary to moderate a renewed inflationary surge.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	1.22	1.05	1.10	1.09
Imports of Goods and Services	1.36	1.31	1.15	1.20
Balance of Goods and Services	-0.14	-0.26	-0.05	-0.11
Current Account Balance	-0.14	-0.26	-0.05	-0.11
Long-Term Capital	0.20	0.21	0.08	NA
Total Reserves Minus Gold (yearend)	0.23	0.15	0.15	0.13

*Estimated

25X1

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ITALY: GENERAL ECONOMIC DATA

Population (1984): 57.0 Million GDP (Purchaser's Value)/Capita: $6,110

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984
GDP (Purchaser's Value - Current Prices)	228.6	267.7	305.0	348.4
GDP (Constant Prices - % Change by Year)	0.2	-0.4	-1.2	2.6
Cost-of-Living Index (1980 = 100)	118	137	157	174

25X1

Rome's principal economic objectives for 1985 include limiting the inflation rate to 7 percent, the current account deficit to about $1 billion, and the budget deficit to 14.8 percent of GDP, while still achieving a 2.5 percent increase in real GDP; only the latter target is within sight. Economic growth should slow only slightly from last year's 2.6 percent rate, as export gains moderate. This relatively sluggish growth rate will restrain import demand, but it will also raise the unemployment rate to about 10.6 percent, compared to 10.4 percent last year.

Reaching the other goals will be tougher. The five coalition partners, with an eye on local elections scheduled for 12 May, have tried to avoid alienating important voting blocks by postponing much-needed measures -- especially pension reform -- to reduce the budget deficit. As a result, the shortfall, which amounted to 15.9 percent of GDP last year, is likely to exceed 16 percent this year. 25X1

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Price increases, which averaged 8.6 percent in the first quarter of 1985, will probably rise to about 9 percent for the year, due largely to the lack of an agreement on new wage contracts and a revision of value added tax rates. The inflation outlook could worsen further if a Communist-sponsored referendum calling for a removal of last year's cap on wage indexation is passed. Lifting the cap would probably add one to two additional points to the inflation rate. 25X1

Rome will also fall short of its current account target. Export gains will slow as Italy's high inflation rate erodes competitiveness, particularly in EC markets, and exports to the US moderate with slower US growth. As a result, the trade deficit -- already running well ahead of last year's record pace -- probably will continue to expand. With the balance on services and transfers remaining largely unchanged, the current account deficit should reach about $3.5 billion.

Trade and Payments (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	100.5	98.9	97.5	97.9
Imports of Goods and Services	109.9	105.4	98.0	102.1
Balance of Goods and Services	-9.4	-6.5	-0.6	-4.2
Current Account Balance	-8.6	-5.7	0.6	-3.1
Long-Term Capital	8.5	5.1	-0.3	NA
Total Reserves Minus Gold (yearend)	20.1	14.1	20.1	20.8

*Estimated

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NETHERLANDS: GENERAL ECONOMIC DATA

Population (1984): 14.4 Million GDP (Purchaser's Value)/Capita: $8,510

Total Output (Billion $US-1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	110.0	114.6	117.4	122.5
GDP (Constant Prices - % Change by Year)	-0.7	-2.0	0.8	1.7
Cost-of-Living Index (1980 = 100)	107	113	116	120

25X1

[redacted] The Dutch economy grew by an estimated 1.5 percent in 1984, led by a rise in stockbuilding and a strong export performance. Business investment is rising but private consumption remains weak. Continued tight budgetary policies probably will limit growth to slightly above 2 percent in 1985 with exports and manufacturing investment leading the expansion. Unemployment has continued to rise -- to approximately 16 percent according to the OECD definition or 17.9 percent according to the Dutch measure -- with little hope for improvement. Inflation increased last year to around 3 percent, but likely will fall to below 2 percent in 1985 because of continued moderation in labor costs and the expected appreciation of the guilder, which will hold down import prices. 25X1

[redacted] Despite increased political and social pressures, Finance Minister Ruding recently urged continued fiscal discipline in order for the government to reach its goal of reducing the budget deficit to 7.5 percent of national income (about 6 percent of GDP) by 1986. The Dutch have been only partially successful in cutting the deficit over the past few years because expenditure reductions have been offset by new outlays and delayed implementation of reforms. 25X1

[redacted] The current account surplus increased sharply to almost $5 billion in 1984 because of a significant increase in merchandise exports -- especially energy exports -- in the first half of the year. Export growth probably will continue to outpace that of imports contributing to a larger surplus on both the trade and current account balances in 1985.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	91.1	88.0	84.1	83.9
Imports of Goods and Services	86.8	84.9	79.5	78.5
Balance of Goods and Services	4.4	3.1	4.6	5.4
Current Account Balance	2.9	3.7	3.6	4.9
Long-Term Capital	-2.7	-3.4	-2.1	-1.9
Total Reserves Minus Gold (yearend)	9.3	10.1	10.2	9.2

* Estimated

[redacted] 25X1

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NORWAY: GENERAL ECONOMIC DATA

Population (1984): 4.1 Million GDP (Purchaser's Value)/Capita: $13,000

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	40.2	44.6	49.2	53.8
GDP (Constant Prices - % Change by Year)	0.8	-0.6	3.2	3.2
Cost-of-Living Index (1980 = 100)	114	127	137	146

Economic growth probably will fall below 2 percent in 1985 because of slower expansion of the oil sector which now accounts for 17 percent of GDP. Industrial production is forecast to increase about 2 percent, after being nearly stagnant since the late 1970s -- because the world recession reduced demand for Norwegian raw materials and semi-manufactures. Both import and export growth will slow, but Norway still is expected to have a large positive trade balance this year and a current account surplus of over $2.5 billion. Although oil production will level off for the remainder of the decade as older fields decline, the value of output and of government revenues is expected to remain stable barring a further drop in oil prices. 25X1

Inflation fell from 8.5 percent in 1983 to about 6.2 percent in 1984 -- still higher than major competitor countries. Meanwhile wage increases of over 7 percent and the krone's continued appreciation against Norway's major trade partners have also hurt Norwegian competitiveness. The government expects inflation to dip below 6 percent this year, but the record suggests that it has faint hope of holding wages to the 5 percent target it has established. 25X1

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The 1985 election year budget reflects the Conservative-led government's concern over the economy's major weakness -- a politically damaging unemployment rate that averaged 3.9 percent in 1984. Planned tax reductions and job creation measures, however, probably will not have a significant impact on unemployment because revenue from North Sea oil and gas will produce an overall budget surplus of nearly $1 billion. Energy taxes now provide about one-fifth of budget revenues, enabling the government to support social programs without threatening the commitment to 3.5-percent real growth in defense spending.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	28.7	27.3	26.8	29.1
Imports of Goods and Services	25.8	26.0	24.0	25.0
Balance of Goods and Services	2.9	1.3	2.8	4.1
Current Account Balance	2.2	0.7	2.2	3.5
Long-Term Capital	-0.7	0.3	-1.5	NA
Total Reserves Minus Gold (yearend)	6.3	6.9	6.6	9.4

*Estimated

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PORTUGAL: GENERAL ECONOMIC DATA

Population (1984): 10.0 Million   GDP (Purchaser's Value)/Capita: $1,950

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	10.1	12.7	15.6	19.5
GDP (Constant Prices - % Change by Year)	1.8	3.0	-0.5	-1.6
Cost-of-Living Index (1980 = 100)	120	147	184	238

[redacted] Portugal's recession deepened last year as the result of its IMF austerity 25X1
program. After declining 7 percent in 1983, domestic demand fell another 6.6 percent, reflecting a dramatic 23-percent fall in investment and a 10-percent loss in real wages. The contraction of domestic demand helped reduce imports $300 million and increase exports $500 million, thus producing a sharp improvement in Portugal's current account deficit. Inflation, however, rose to 29 percent due mainly to IMF-mandated price hikes for government-subsidized goods and services.

[redacted] IMF surveillance ended in February 1985, but the government envisages only a 25X1
slight easing of its economic policies. A sluggish recovery is likely with real GDP growing only about 1 percent this year. Private consumption probably will be flat because of an expected 2-percent decline in real wages. The impaired financial condition of many Portuguese companies and competition from the government for available credit will limit investment growth. At the same time, slower export expansion and rising import demand will push the current account deficit deeper into the red, although probably to less than $1 billion.

[redacted] Lisbon is still negotiating with the World Bank on terms for restructuring public
sector companies. The government is unlikely to undertake a program until next year 25X1
because of political bickering and presidential elections this December. Meanwhile, Lisbon faces the task of reforming its backward agricultural sector in order to reduce balance-of-payments pressures after it enters the EC, which is scheduled to take place in January 1986.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	6.3	5.8	6.3	7.1
Imports of Goods and Services	11.9	11.7	10.0	9.7
Balance of Goods and Services	-5.6	-5.9	-3.7	-2.6
Current Account Balance	-2.8	-3.2	-1.7	-0.5
Long-Term Capital	1.8	2.6	1.3	0.4
Total Reserves Minus Gold (yearend)	0.5	0.4	0.4	0.5

*Estimated

[redacted] 25X1

25X1

SPAIN: GENERAL ECONOMIC DATA

Population (1984): 38.4 Million GDP (Purchaser's Value)/Capita: $4,120

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	107.8	123.7	141.7	158.3
GDP (Constant Prices - % Change by Year)	0.2	1.2	2.3	2.5
Cost-of-Living Index (1980 = 100)	114	131	147	160

25X1

Economic growth rose slightly last year to 2.5 percent, Spain's best performance since 1977. Real exports -- up by more than 16 percent -- were the main driving force. Private consumption weakened because of real wage losses and rising unemployment while investment continued to fall due to high real labor costs. 25X1

Slack domestic demand held down imports and helped reduce inflation 3 percentage points to 9 percent, but it also contributed to pushing the unemployment rate to 21.7 percent. Meanwhile, the export boom swung the current account from a deficit of $2.5 billion to a surplus of $2 billion.

Export volume probably will expand less than 8 percent this year, reflecting slower growth in the industrial countries and an erosion of price competitiveness. Spanish officials are consequently pinning their hopes of a sustained recovery on an upturn in domestic demand. Madrid expects an easier monetary policy, legislative changes, and tax cuts to stimulate investment and private consumption. Nevertheless, real GDP growth will still be no better than 3 percent -- too slow to bring the jobless rate below 20 percent. 25X1

Despite the likely lack of progress on unemployment and the pain which Prime Minister Gonzalez's austerity program has inflicted on his constituents, he should win next year's elections because he faces weak opposition. Workers almost certainly will not turn against the Socialists as long as the only alternative is the rightwing Popular Alliance, which supports the general lines of Gonzalez's unpopular industrial restructuring program. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	34.4	34.8	33.6	38.1
Imports of Goods and Services	41.0	40.6	37.2	36.9
Balance of Goods and Services	-6.6	-5.8	-3.6	1.2
Current Account Balance	-5.0	-4.1	-2.5	2.0
Long-Term Capital	4.3	1.8	3.1	3.3
Total Reserves Minus Gold (yearend)	10.8	7.9	7.4	12.0

*Estimated

25X1

TURKEY: GENERAL ECONOMIC DATA

Population (1984): 50.2 Million   GDP (Purchaser's Value)/Capita: $960

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	17.5	23.4	31.3	48.2
GDP (Constant Prices - % Change by Year)	4.7	4.3	3.8	5.9
Cost-of-Living Index (1980 = 100)	138	183	235	357

Prime Minister Ozal's program of economic liberalization and fiscal and monetary austerity has shown mixed results after his first year and a half in office. He can point to strong economic growth -- real GNP expanded by almost 6 percent in 1984, up from 3.8 percent in 1983 -- and progress in improving the balance of payments as achievements. Ozal's failure to reduce inflation and unemployment, however, is causing political difficulties for him. Inflation soared to 52 percent last year, compared with 31 percent in 1983. Part of this rise was the result of needed price increases for many state-produced products and part is attributable to the loose monetary policies of the previous military government. Nevertheless, Ozal's own monetary and fiscal policies have been less austere than expected as the money supply grew nearly 50 percent in 1984 while the fiscal deficit climbed to nearly 6 percent of GDP. Ozal also has made little or no progress against unemployment, which is generally considered to be about 20 percent, although there are no reliable figures.

The balance of payments improved last year as the current account deficit fell to $1.4 billion, down from $1.8 billion in 1983. Exports surged 25 percent -- to $7.4 billion -- as regular lira devaluations kept Turkish goods competitive in foreign markets. Imports rose only 16 percent, despite a relaxation of many import restraints, holding the trade deficit steady. Worker remittances rose over 20 percent to $1.9 billion, following two years of substantial declines.

The outlook for 1985 is mixed. GNP growth should remain strong at around 5 percent, and we expect the current account deficit to continue narrowing -- perhaps to $1 billion. Unemployment, however, is likely to creep higher because of strong growth in the labor force, while inflation will continue to run at about 45-50 percent. Debt service costs will jump sharply this year -- Ankara's grace period on rescheduled foreign debt essentially ended in 1984 -- and probably reach about 30 percent of current account earnings. As a result, Turkey will continue to be dependent on foreign aid from the West and new commercial loans.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	4.7	5.7	5.9	7.4
Imports of Goods and Services	8.9	8.4	8.9	10.3
Balance of Goods and Services	-4.2	-2.7	-3.0	-2.9
Current Account Balance**	-2.3	-0.9	-1.8	-1.4
Long-Term Capital	0.4	0.1	-0.6	NA
Total Reserves Minus Gold (yearend)	1.3	0.9	1.3	1.3

*Estimated
**Before debt relief

[redacted] 25X1

UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1984): 56.4 Million GDP (Purchaser's Value)/Capita: $7,600

Total Output (Billion $US-1984 Exch Rate)	1981	1982	1983	1984*
GDP (Purchaser's Value - Current Prices)	339.3	370.1	402.2	428.30
GDP (Constant Prices - % Change by Year)	-1.1	1.9	3.4	1.9
Cost-of-Living Index (1980 = 100)	112	122	127	133

25X1

[redacted] Most forecasters estimate that the end of the coal miners' strike will account for about one-third of the 3 percent growth rate forecast for the British economy this year. Now in its fourth year, the recovery has been spurred by exports, which have risen in volume terms as a result of the relatively low value of the pound. The pickup has not been strong enough, however, to reduce unemployment -- now over 13 percent of the workforce and likely to rise this year. Despite a commitment by Prime Minister Thatcher to address this problem, tax reforms introduced in the budget -- intended to reduce the cost of hiring low income workers -- are likely to take several years to generate new jobs. The Thatcher government still contends that the key to maintaining long-term economic growth is to keep inflation and interest rates low. 25X1

[redacted] In the national budget, unveiled in March, the Treasury trimmed the target range for annual growth of the money supply from 6-10 percent to 5-9 percent and announced spending cuts to reduce the deficit from $10 billion to $7.7 billion. Both of these objectives illustrate continued commitment to controlling inflation, public spending, and interest rates. London has had mixed success so far, with inflation expected to edge up to more than 6 percent this year -- the highest level since 1982. Thatcher believes, however, that reducing inflation to an annual rate of 3 percent within two or three years is a "realistic target" and essential to maintaining Britain's international competitiveness. The Prime Minister also is pleased that interest rates -- boosted sharply to 14 percent earlier this year to defend the pound -- are now coming down. 25X1

[redacted] Britain's trade and current accounts were in near balance in 1984, and they are likely to remain so in 1985. Economic growth should generate steady demand for imports, and exports should recover as a result of the lower value of the pound and the end of the miners' strike.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984*
Exports of Goods and Services	157.2	147.1	138.8	122.0
Imports of Goods and Services	138.2	133.6	131.0	121.5
Balance of Goods and Services	19.0	13.5	7.8	0.5
Current Account Balance	15.1	9.8	4.4	-0.2
Long-Term Capital	-18.0	-15.1	-11.4	-21.5
Total Reserves Minus Gold (yearend)	15.2	12.4	11.3	9.4

*Estimated

[redacted] 25X1

[redacted] 25X1

WEST GERMANY: GENERAL ECONOMIC DATA

Population (1984): 61.2 Million GDP (Purchaser's Value)/Capita: $10,030

Total Output (Billion $US - 1984 Exch Rate)	1981	1982	1983	1984
GDP (Purchaser's Value - Current Prices)	442.8	561.4	587.3	614.0
GDP (Constant Prices - % Change by Year)	-0.3	-1.1	1.3	2.6
Cost-of-Living Index (1980 = 100)	106	112	116	118

25X1

[redacted] We expect the West German expansion to continue this year at about 1984's moderate 2.6 percent pace. West German economic vitality, however, seems increasingly dependent on the external sector. Exports are the driving force behind growth, as West German manufacturers take advantage of the strong dollar to expand foreign market shares. The traditional export sectors -- steel, chemicals, autos, machinery, and engineering -- are all benefiting. Foreign demand will again be the main source of growth in 1985, although export volume will not match last year's 9-percent increase. 25X1

[redacted] The domestic economy, by contrast, is moving on a slow track. Even increases in equipment investment -- the strongest contributor to growth domestically -- are being generated largely by externally-oriented firms. Moreover, the flagging construction industry, hit by a saturated housing market and the slowdown in public construction, is sapping overall investment growth. Private consumption has remained weak due to slack labor market conditions and is likely to continue lagging, even taking into account the first installment of a modest tax cut in 1986. Meanwhile, Bonn's devotion to budget-balancing has imposed austerity on public consumption and investment. 25X1

[redacted] The rise in consumer prices this year should remain close to 1984's 2.4 percent -- continuing evidence of Bonn's success in taming inflation. Unemployment remains the most intractable problem; the 9.1-percent unemployment rate recorded in 1984 is exceptionally high by historical standards, and no improvement is in sight. The expected moderate rate of economic growth will not generate many new jobs while high labor costs are causing West German firms to adopt more capital-intensive production techniques. The Kohl government has no comprehensive plan to deal with unemployment, but the opposition -- preoccupied with security and foreign policy matters -- has not effectively exploited this issue.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1981	1982	1983	1984
Exports of Goods and Services	219.9	219.5	209.8	218
Imports of Goods and Services	213.7	204.4	195.3	200
Balance of Goods and Services	6.2	15.1	14.5	18
Current Account Balance	-5.7	3.4	4.0	6.2
Long-Term Capital	3.5	-6.7	-3.3	-4.7
Total Reserves Minus Gold (yearend)	43.7	44.8	42.7	40.1

[redacted] 25X1